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Agenda item 14

ADOPTION OF THE REPORT OF THE COMMISSION ON ITS SEVENTEENTH SESSION

Draft report

Addendum

Rapporteur: Andrew G. BANGALI (Sierra Leone)

Chapter ____

ONGOING AND FUTURE RESEARCH

1. The Commission considered item 6 of its agenda at its 4th and 6th meetings, on 11 and 12 April 1991. It had before it the report of the Secretary-General on the determinants of foreign direct investment and their policy implications (E/C.10/1991/7). Another report related to this agenda item, on the activities of the United Nations Centre on Transnational Corporations and the activities of the joint units established with the regional commissions (E/C.10/1991/15), was considered separately under agenda item 12.

2. In his introductory statement, the Deputy Executive Director of the Centre stated that existing research on the determinants of foreign direct investment indicated that factors specific to transnational corporations were the most important in determining the size of world-wide flows of foreign direct investment, while factors specific to host countries' locations were important in determining which host countries received those flows. Empirical research indicated that economic conditions within host countries had been more important than policy changes in attracting larger inflows of foreign direct investment to developing countries. The Deputy Executive Director

suggested that policy changes could provide an important precondition for attracting foreign direct investment, but were not sufficient by themselves in making host locations more attractive. He stated that policies might be most effective if they were formulated to reinforce a host country's locational advantages.

3. All delegations contributing to the discussion expressed support for the Centre's research programme and noted its importance in helping host developing countries to formulate appropriate policies towards foreign direct investment. One delegation noted the growing importance of non-equity arrangements by transnational corporations and suggested that the Centre should study the conditions under which transnational corporations chose equity or non-equity forms of investment. Several delegations stressed the importance of conducting research on transnational corporations and human resources development. Several delegations pointed to the importance of research on the links between foreign direct investment and other aspects of economic performance, such as international trade, technology transfer, financial flows, debt burdens and industrial structure, including the role of small- and medium-sized transnational corporations. One delegation also suggested studies on the role of regional integration in attracting foreign direct investment and the growing impact of foreign direct investment from the newly industrializing economies.

4. Several delegations commented on the heightened competition for foreign investment among host developing countries, a competition that was becoming intense with the emergence of Eastern Europe as a potential host region. In the view of one delegation, such competition could benefit transnational corporations but would not benefit developing countries. Several delegations noted that the growing importance of technology in international production had reduced the importance of such locational advantages as labour costs and, as a result, a number of developing countries might be forced to reduce their participation in the world economy.

5. One delegation commented that its own experience with policies towards foreign direct investment corroborated the finding that policy liberalizations might be a precondition for attracting foreign direct investment but were not sufficient by themselves, and suggested that countries might frequently find themselves in a dilemma with respect to formulating policies that might be necessary for the domestic economy but might weaken the countries' ability to attract foreign capital. Another delegation emphasized the importance of recognizing that many factors, including the competitive advantages of transnational corporations, were beyond the influence of host countries, and that host countries should therefore focus on improving those factors that were under their influence.

6. In concluding the discussion, the Deputy Executive Director of the Centre took note of the many suggestions for future research put forward by delegates. He indicated that the Centre recognized the importance of further work on those issues. He stated that research to date supported the conclusion that while host developing countries could not affect all

determinants of foreign direct investment, appropriate policies were a necessary precondition and host countries should make all efforts to institute polices to attract foreign direct investment by transnational corporations.

Action taken by the Commission

7. The Commission took note of the report of the Secretary-General on the determinants of foreign direct investment and their policy implications (E/C.10/1991/7) and requested the Secretary-General to prepare another report on the Centre's ongoing and future research efforts for the next session of the Commission.